

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**HOUGHTON, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL FINANCIAL INFORMATION**

**June 30, 2004**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name <b>PORTAGE LAKE WATER &amp; SEWAGE AUTH.</b>	County <b>HOUGHTON</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>8/4/04</b>	Date Accountant Report Submitted to State: <b>8/31/04</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>BRUCE A. RUKKILA, CPA, PC</b>			
Street Address <b>310 SHELLEN AVENUE</b>	City <b>HOUGHTON</b>	State <b>MI</b>	ZIP <b>49931</b>
Accountant Signature <i>Debbie Bradford</i>		Date <b>8/31/04</b>	

## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORTS</b>	
Independent Auditor's Report .....	3
Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards .....	5
<b>COMBINED FINANCIAL STATEMENTS:</b>	
Combined Balance Sheet .....	6
Combined Statement of Changes in Equity .....	7
Combined Statement of Operations .....	8
Combined Statement of Cash Flows .....	9
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	10
<b>SUPPLEMENTAL FINANCIAL INFORMATION:</b>	
Statement of Activity - Budget and Actual .....	21
Due From Municipalities .....	22
Schedule of Gallons Processed .....	23
Flowage Analysis .....	24
Net Operating Cost Per 1,000 Gallons .....	25
<b>LETTER OF COMMENTS AND RECOMMENDATIONS</b> .....	26



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### INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Portage Lake Water & Sewage Authority  
Houghton, Michigan 49931

We have audited the accompanying financial statements of the Portage Lake Water & Sewage Authority as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of Portage Lake Water & Sewage Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A to the Financial Statements, the Authority does not recognize depreciation, amortization of gain on defeased debt, or accrued compensated absences as required by generally accepted accounting principles. In addition, the Authority's has not adopted the reporting format of Governmental Accounting Standards Board Statement No. 34.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the dollar amount of which we have not determined, the financial statements referred to above present fairly, in all material respects, the financial position of the Portage Lake Water & Sewage Authority as of June 30, 2004, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 4, 2004, on our consideration of Portage Lake Water & Sewage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Portage Lake Water & Sewage Authority. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, except for the effects on the financial statements of the omissions described previously, the dollar amount of which we have not determined, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Bruce A. Rukkala, CPA, PC*

Certified Public Accountants

August 4, 2004



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Portage Lake Water & Sewage Authority  
Houghton, Michigan 49931

We have audited the financial statements of Portage Lake Water & Sewage Authority as of and for the year ended June 30, 2004, and have issued our report thereon dated August 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Portage Lake Water & Sewage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Portage Lake Water & Sewage Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

August 4, 2004

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**COMBINED BALANCE SHEET**

June 30, 2004

	Operating Fund	Sanitary Water Supply System No.1 (Hancock)	Combined Total
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and equivalents	\$ 123,823	\$ -	\$ 123,823
Investments	138,343	-	138,343
Due from other government units	36,975	-	36,975
Inventory	2,700	-	2,700
Prepaid insurance	5,049	-	5,049
TOTAL CURRENT ASSETS	<u>306,890</u>	<u>-</u>	<u>306,890</u>
<b>RESTRICTED ASSETS:</b>			
Cash and equivalents	100,000	-	100,000
Investments	385,203	-	385,203
TOTAL RESTRICTED ASSETS	<u>485,203</u>	<u>-</u>	<u>485,203</u>
<b>PROPERTY, PLANT, AND EQUIPMENT:</b>			
Land and improvements	399,320	-	399,320
Buildings and plant	23,154,675	224,496	23,379,171
Equipment	297,403	-	297,403
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>23,851,398</u>	<u>224,496</u>	<u>24,075,894</u>
<b>OTHER ASSETS:</b>			
Advance refunding bond issuance costs	216,808	-	216,808
TOTAL ASSETS	<u>\$ 24,860,299</u>	<u>\$ 224,496</u>	<u>\$ 25,084,795</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 34,361	\$ -	\$ 34,361
Other accrued expenses	173,087	-	173,087
Current maturities on long-term debt	255,000	-	255,000
TOTAL CURRENT LIABILITIES	<u>462,448</u>	<u>-</u>	<u>462,448</u>
<b>LONG-TERM LIABILITIES:</b>			
General obligation bonds (See Note C)	8,865,774	-	8,865,774
Less current maturities	(255,000)	-	(255,000)
TOTAL LONG-TERM LIABILITIES	<u>8,610,774</u>	<u>-</u>	<u>8,610,774</u>
TOTAL LIABILITIES	<u>9,073,222</u>	<u>-</u>	<u>9,073,222</u>
<b>EQUITY:</b>			
Contributed Capital	15,558,023	224,496	15,782,519
Reserved Equity (See Note G)	229,054	-	229,054
TOTAL EQUITY	<u>15,787,077</u>	<u>224,496</u>	<u>16,011,573</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 24,860,299</u>	<u>\$ 224,496</u>	<u>\$ 25,084,795</u>

The accompanying notes to the financial statements are an integral part of this statement.

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**COMBINED STATEMENT OF CHANGES IN EQUITY**

Year ended June 30, 2004

	<u>Federal State and Other</u>	<u>Houghton</u>	<u>Hancock</u>	<u>Combined Total</u>
<b>CONTRIBUTED CAPITAL:</b>				
Balance at beginning of year	\$11,087,463	\$2,791,417	\$1,578,639	\$15,457,519
Bond payments	<u>-</u>	<u>237,744</u>	<u>102,744</u>	<u>325,000</u>
<b>TOTAL CONTRIBUTED CAPITAL</b>	<b><u>\$11,087,463</u></b>	<b><u>\$3,029,161</u></b>	<b><u>\$1,681,383</u></b>	<b><u>\$15,782,519</u></b>
<b>RESERVE EQUITY</b>				
<b>RESERVED FOR CONTINGENCY</b>				
(See Note G):				
Balance at beginning of year		\$ 18,752	\$ 18,006	\$ 36,758
Balance at end of year		<u>18,752</u>	<u>18,006</u>	<u>36,758</u>
<b>RESERVED FOR REPAIR AND REPLACEMENT</b>				
(See Note G):				
Balance at beginning of year		147,611	62,941	210,552
Budget in excess of actual		(154)	(55)	(209)
Interest income		352	126	478
Designated expenses		<u>(66,776)</u>	<u>(23,847)</u>	<u>(90,623)</u>
Balance at end of year		<u>81,033</u>	<u>39,165</u>	<u>120,198</u>
<b>RESERVED FOR BOND PAYMENTS</b>				
(See Note G):				
Balance at beginning of year		39,070	14,041	53,111
Actual in excess of budget		12,996	4,641	17,637
Interest income		<u>995</u>	<u>355</u>	<u>1,350</u>
Balance at end of year		<u>53,061</u>	<u>19,037</u>	<u>72,098</u>
<b>TOTAL RESERVE EQUITY</b>		<b><u>\$ 152,846</u></b>	<b><u>\$ 76,208</u></b>	<b><u>\$ 229,054</u></b>

The accompanying notes to the financial statements are an integral part of this statement.



**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**COMBINED STATEMENT OF OPERATIONS**

Year ended June 30, 2004

	Operating Fund	Sanitary Water Supply System No.1 (Hancock)	Combined Total
<b>OPERATING INCOME:</b>			
Charges to Houghton	\$ 1,000,760	\$ -	\$ 1,000,760
Charges to Hancock	361,712	-	361,712
Other income	2,123	-	2,123
<b>TOTAL OPERATING INCOME</b>	<u>1,364,595</u>	<u>-</u>	<u>1,364,595</u>
<b>OPERATING EXPENSES:</b>			
Wages	228,533	-	228,533
Payroll taxes	22,366	-	22,366
Employee welfare	104,780	-	104,780
Administrative expense	72,260	-	72,260
Office operation	3,008	-	3,008
Power	104,915	-	104,915
Fuel for heat	11,719	-	11,719
Water	1,288	-	1,288
Phosphate chemicals	41,579	-	41,579
Snow removal and bed prep	26,198	-	26,198
Maintenance parts and supplies	29,799	-	29,799
Repair and replacements	29,894	-	29,894
Vehicle expense	4,642	-	4,642
Lab and other supplies	9,029	-	9,029
Outside lab services	18,701	-	18,701
Insurance	35,773	-	35,773
Telephone	9,303	-	9,303
Professional services	11,759	-	11,759
Training and travel	2,587	-	2,587
Bank charges	10	-	10
Miscellaneous	1,039	-	1,039
<b>TOTAL OPERATING EXPENSES</b>	<u>769,182</u>	<u>-</u>	<u>769,182</u>
<b>NET OPERATING INCOME</b>	<u>595,413</u>	<u>-</u>	<u>595,413</u>
<b>NON-OPERATING INCOME (EXPENSES):</b>			
Interest income	1,950	-	1,950
Interest expense	(597,363)	-	(597,363)
<b>TOTAL NON-OPERATING INCOME (EXPENSES)</b>	<u>(595,413)</u>	<u>-</u>	<u>(595,413)</u>
<b>NET INCOME</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to the financial statements are an integral part of this statement.

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**COMBINED STATEMENT OF CASH FLOWS**

Year ended June 30, 2004

	Operating Fund	Sanitary Water Supply System No.1 (Hancock)	Combined Total
Cash flows from operating activities:			
Operating Income	\$ 595,413	\$ -	\$ 595,413
Adjustments to reconcile operating income to net cash provided by operating activities:			
(Increase) decrease in due to/from other govt	21,371	-	21,371
(Increase) decrease in accounts receivable	1,669	-	1,669
(Increase) decrease in prepaid insurance	869	-	869
Increase (decrease) in accounts payable	(4,018)	-	(4,018)
Increase (decrease) in accrued bond interest	(2,757)	-	(2,757)
Increase (decrease) in other accrued expenses	13,464	-	13,464
Total adjustments	30,598	-	30,598
Net cash provided (used) by operating activities	626,011	-	626,011
Cash flows from investing activities:			
Purchase of investment securities	(1,776,666)	-	(1,776,666)
Redemption of investment securities	1,901,273	-	1,901,273
Interest received cash deposits	1,950	-	1,950
Net cash provided (used) by investing activities	126,557	-	126,557
Cash flows from financing activities:			
Principal paid on bonds	(325,000)	-	(325,000)
Interest paid on bonds	(597,363)	-	(597,363)
Contributed capital	253,633	-	253,633
Net cash provided (used) by financing activities	(668,730)	-	(668,730)
Net increase (decrease) in cash and equivalents	83,838	-	83,838
Cash and equivalents, beginning of year	139,985	-	139,985
Cash and equivalents, end of year	\$ 223,823	\$ -	\$ 223,823

The accompanying notes to the financial statements are an integral part of this statement.

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS – June 30, 2004**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

The following is a summary of the more significant accounting policies of the Portage Lake Water & Sewage Authority:

**SCOPE OF REPORTING ENTITY**

The Portage Lake Water & Sewage Authority entered into a contract with the City of Houghton and the City of Hancock for the acquisition, improvements, enlargement, extension, operation, and maintenance of a sewage disposal system. The cost of operations and improvements are divided between the City of Houghton and the City of Hancock on a pro rata basis based upon the percentage use of the plant by each city as measured by the material flow from the pumping station.

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the financial statements of the Portage Lake Water & Sewage Authority contain all of the financial activity of the Authority's funds. The Authority is not considered a component unit of either city. Elements considered in determining that the Authority is not a component unit of the cities are as follows:

1. The Cities are not responsible for the designation of the Authority's management.
2. The Cities do not approve the Authority's annual budget or budget amendments.
3. The Cities do not significantly influence operations.
4. The Cities each appoint two of the five members to the Authority's Board of Trustees.
5. The Cities do not have significant fiscal management responsibilities. They do not have a right to receive surplus payments made to the authority and are not responsible for guaranteeing certain debt.
6. The Cities provide no direct on-going financial support to the Water & Sewage Authority.
7. The Cities do not hold title to the physical assets of the Authority.

Financial transactions between the Cities and the Authority, reported in the accompanying financial statements, constitute contractual agreements for providing services. The Cities should account for their investment in the Authority, using the Equity method, as required by generally accepted accounting principles.

**BASIS OF ACCOUNTING**

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Funds of the Authority are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when incurred.

**REVENUES**

Revenues (charges to the Cities) are recognized based on actual expenditures incurred, adjusted annually based on audited amounts. Expenditures are allocated to the Cities of Houghton and Hancock based on the number of gallons of flowage processed annually. Expenditures for capital assets, debt principal payments, and other nonoperating type expenditures are charged directly to the Cities using the same allocation basis. These charges are recorded as contributions to the respective city's equity account.

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS – June 30, 2004**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

**FIXED ASSETS**

All fixed assets are valued at historical cost. The Authority has not included a provision for depreciation of plant and equipment in the financial statements as required by generally accepted accounting principles because the agreement establishing the Authority does not provide for the establishment of a reserve for this purpose.

**LONG-TERM DEBT**

Beginning June 30, 1998, the Authority does not amortize bond refunding costs or gain on defeased debt relating to its bond issue as required by generally accepted accounting principles.

**CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, cash and equivalents consist of cash on hand and cash in savings and checking accounts.

**INVENTORY**

Inventories are valued at cost.

**BUDGETARY DATA**

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Each April, the Plant Superintendent and Administrative Secretary prepare a proposed operating budget for the fiscal year commencing the following July 1, and submit the proposed budget to the Board at the regular May meeting.
2. The Board reviews the proposed budget, which includes proposed expenditures and the means of financing them.
3. Pursuant to statute, the board approves the budget and submits it to the respective municipality's legislative bodies for their records. The final budget is formally adopted at the next board meeting. No budget shall be adopted unless approved by a four-fifths vote of the members-elect of the Board of Trustees.
4. The Board reviews the budget quarterly during the fiscal year and makes formal amendments when appropriate.
5. Budget appropriations lapse at the end of the fiscal year.

**ENCUMBRANCES**

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Authority does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS – June 30, 2004**

**NOTE B - CASH AND EQUIVALENTS**

Cash and equivalents can be summarized as follows:

Unrestricted:

Operating	\$ 123,748
Cash on hand	75
Total Unrestricted	<u>123,823</u>

Restricted:

Debt Retirement	100,000
Total Cash and Equivalents	<u>\$ 223,823</u>

Statutory Authority

Act 217, PA 1982, authorizes the Authority to deposit and invest in:

1. Bonds and other direct obligations of the United States or its agencies.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union administration that are eligible to be a depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended.
3. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time.
4. United States government or Federal agency obligation repurchase agreements.
5. Banker's acceptance of United States banks.
6. Mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

CASH DEPOSITS

At June 30, 2004, the book value of the Authority's demand deposits, consisting primarily of cash and cash equivalents, was \$223,823 with a corresponding bank balance of \$224,491. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance \$200,000, representing approximately 89% of the Authority's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$200,000 was insured and \$24,491 was neither insured or collateralized.

INVESTMENTS

The investment of the Authority's funds is governed by state statutes. In general, state statutes provide that the Authority is authorized to invest its funds in certificates of deposits, savings accounts, and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities and other obligations of the United States in which the principal and interest is fully guaranteed by the United States, and investments in commercial paper rated prime at the time of purchase and which matures not more than 270 days after the date of purchase.

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS – June 30, 2004**

**NOTE B - CASH AND EQUIVALENTS (Continued)**

Investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the entity's name.

The Authority's investments consist of U.S. Treasury Securities that are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The fair value of the investments are not materially different than the reported amounts. Investment amounts of \$385,203 is restricted for Debt Retirement and 138,343 is unrestricted.

**NOTE C - FIXED ASSETS**

Property and equipment are stated at cost. Expenditures which materially extend the useful life of existing properties are capitalized. All costs relating to the construction of facilities are capitalized, including salaries, employee benefits, and bond interest costs.

The components of property, plant, and equipment for the operating fund are summarized as follows:

Description	Amount
Land and Improvements	\$ 15,134
Land - New Sewer Plant	384,186
Total Land and Improvements	399,320
Building, tanks, and appurtenances	22,106,079
Pumps	307,516
Non-potable water system	16,972
Area Step I plan	2,500
Plant modernization	60,600
Houghton interceptors	403,675
Hancock interceptors	257,333
Total plant system	23,154,675
Automotive equipment	170,782
Lab equipment	19,924
Other equipment	106,697
Total equipment	297,403
TOTAL	\$ 23,851,398

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS – June 30, 2004**

**NOTE C - LONG-TERM DEBT**

**GENERAL OBLIGATION LIMITED TAX BONDS**

On January 16, 1991, the Authority and the local units entered into a contract for the acquisition, construction, installation, financing, operation, and maintenance of a new waste-water treatment plant to replace the existing treatment plant. The local units are obligated to pay the cost of the improvements to be financed by the issuance of bonds. Bonds have been issued in four series totaling \$11,193,041. Each bond was issued at a discount.

1995 Advance Refunding Bonds

On February 1, 1995, the Authority issued \$9,630,000 of general obligation - unlimited tax bonds to advance refund \$8,400,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to pay certain costs of issuance relating to the partial refunding of Series II Bonds, dated December 19, 1991, and Series III Bonds, dated March 31, 1992, and to establish an "Escrow Fund." The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on October 1, 2003. As a result, the refunded bonds are considered to be defeased.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 5.30% to 6.20% per annum. Interest payments started on October 1, 1995, and are payable semi-annually on April 1, and October 1 as indicated. The bonds are to be both term and serial.

Bonds maturing in the years 1999 through 2005, inclusive, are not subject to redemption prior to maturity. The Bonds, or \$5,000 portions thereof, maturing on or after October 1, 2006, may be redeemed at the option of the Issuer in any order of maturity and within each maturity by lot on any interest payment date on or after October 1, 2005 at the redemption prices set forth in the following table (expressed as a percentage of the principal amount of the Bonds or portions thereof to be redeemed) plus accrued interest to the date fixed for redemption:

<u>Redemption Period</u>	<u>Redemption Price</u>
October 1, 2005 through September 30, 2006	102%
October 1, 2006 through September 30, 2007	101%
October 1, 2007 and thereafter	100%

The Bonds maturing on October 1, 2014, and on October 1, 2020 (the "Term Bonds"), are subject to mandatory sinking fund redemption at par plus accrued interest to the date of redemption on the dates and in the principal amounts set forth in the following table. The Term Bonds to be mandatorily redeemed shall be selected by lot in such manner as shall be determined by the Transfer Agent.

Term Bonds Due October 1, 2014	
<u>October 1</u>	<u>Redemption Requirement</u>
2012	\$555,000
2013	\$590,000
2014	\$625,000

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS – June 30, 2004**

**NOTE C - LONG-TERM DEBT (Continued)**

Term Bonds Due October 1, 2020	
<u>October 1</u>	<u>Redemption Requirement</u>
2015	\$665,000
2016	\$705,000
2017	\$755,000
2018	\$800,000
2019	\$845,000
2020	\$900,000

The principal amount of the Term Bonds to be redeemed on the dates set forth above shall be reduced by the principal amount of the Term Bonds which have been previously redeemed or called for redemption (other than as a result of mandatory redemption) or purchased or acquired by the Issuer and delivered to the Transfer Agent. The Issuer may satisfy mandatory redemption requirements by purchasing and surrendering Term Bonds in lieu of the calling of such Term Bonds for redemption.

**SCHEDULE OF WASTE-WATER PLANT BONDS - 1995 REFUNDING**  
**June 30, 2004**

<u>Fiscal Year</u>	<u>October 1</u>		<u>April 1</u>	<u>Total</u>
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2004-05	\$ 282,056	\$ 145,000	\$ 278,032	\$ 705,088
2005-06	278,032	150,000	273,832	701,864
2006-07	273,832	175,000	268,932	717,764
2007-08	268,932	430,000	256,677	955,609
2008-09	256,677	450,000	243,627	950,304
2009-10	243,627	475,000	229,615	948,242
2010-11	229,615	500,000	214,615	944,230
2011-12	214,615	520,000	198,755	933,370
2012-13	198,755	555,000	181,827	935,582
2013-14	181,827	590,000	163,832	935,659
2014-15	163,832	625,000	144,770	933,602
2015-16	144,770	665,000	124,155	933,925
2016-17	124,155	705,000	102,300	931,455
2017-18	102,300	755,000	78,895	936,195
2018-19	78,895	800,000	54,095	932,990
2019-20	54,095	845,000	27,900	926,995
2020-21	27,900	900,000	-	927,900
<b>TOTAL</b>	<b>\$ 3,123,915</b>	<b>\$ 9,285,000</b>	<b>\$ 2,841,859</b>	<b>\$ 15,250,774</b>



**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS – June 30, 2004**

**NOTE C - LONG-TERM DEBT (Continued)**

1998 Advance Refunding

On June 1, 1998, the Authority issued \$1,360,000 of general obligation - unlimited tax bonds to advance refund \$1,220,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to pay certain costs of issuance relating to the partial refunding of Series 1991 Bonds, dated February 1, 1991 and Series II Bonds, dated December 1, 1991 and to establish an "Escrow Fund". The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on April 1, 1999 for the Series 1991 Bonds and October 1, 2002 for the Series II Bonds. As a result, the refunded bonds are considered to be defeased.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 4.00% to 4.55% per annum. Interest payments started on October 1, 1998, and are payable semi-annually on April 1, and October 1 as indicated. The bonds are to be both term and serial.

The principal amount of the Term Bonds to be redeemed on the dates set forth above shall be reduced by the principal amount of the Term Bonds which have been previously redeemed or called for redemption (other than as a result of mandatory redemption) or purchased or acquired by the Issuer and delivered to the Transfer Agent. The Issuer may satisfy mandatory redemption requirements by purchasing and surrendering Term Bonds in lieu of the calling of such Term Bonds for redemption.

The Bonds are not subject to optional redemption prior to maturity.

SCHEDULE OF WASTE-WATER PLANT BONDS - 1998 REFUNDING  
June 30, 2004

<u>Payable Fiscal Year</u>	<u>October 1</u>		<u>April 1</u>	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-05	\$ 12,854	\$ 110,000	\$ 10,461	\$ 133,315
2005-06	10,461	235,000	5,233	250,694
2006-07	5,233	230,000	-	235,233
	<u>\$ 28,548</u>	<u>\$ 575,000</u>	<u>\$ 15,694</u>	<u>\$ 619,242</u>

Activity of long-term debt was as follows for the year ended June 30, 2004:

	<u>Balance June 30, 2003</u>	<u>Retirement</u>	<u>Balance June 30, 2004</u>
Series IIIB	\$ 10,000	\$ 10,000	\$ -
1995 Refunding	9,430,000	145,000	9,285,000
1998 Refunding	745,000	170,000	575,000
TOTAL	<u>\$ 10,185,000</u>	<u>\$ 325,000</u>	<u>\$ 9,860,000</u>

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS – June 30, 2004**

**NOTE C - LONG-TERM DEBT (Continued)**

**SCHEDULE OF AGGREGATE MATURITIES**

June 30, 2004

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2004-05	\$ 583,403	\$ 255,000	\$ 838,403
2005-06	567,558	385,000	952,558
2006-07	547,997	405,000	952,997
2007-08	525,609	430,000	955,609
2008-09	500,304	450,000	950,304
2009-10	473,242	475,000	948,242
2010-11	444,230	500,000	944,230
2011-12	413,370	520,000	933,370
2012-13	380,582	555,000	935,582
2013-14	345,659	590,000	935,659
2014-15	308,602	625,000	933,602
2015-16	268,925	665,000	933,925
2016-17	226,455	705,000	931,455
2017-18	181,195	755,000	936,195
2018-19	132,990	800,000	932,990
2019-20	81,995	845,000	926,995
2020-21	27,900	900,000	927,900
<b>TOTAL</b>	<b>\$ 6,010,016</b>	<b>\$ 9,860,000</b>	<b>\$ 15,870,016</b>

The following is a reconciliation of the total aggregate maturities above to the amount reported on the balance sheet:

Total Aggregate Maturities	\$ 9,860,000
Contra Refunding	(724,755)
Bond Discount	(269,471)
Long-Term Debt - Balance Sheet	<u>\$ 8,865,774</u>

**NOTE D - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

Segment information for the year ended June 30, 2004 is as follows:

Operating Revenues	\$1,364,595
Depreciation	\$0
Operating Income (Loss)	\$595,413
Non-operating Revenue (Expense)	\$(595,413)
Net Income (Loss)	\$0
Property, Plant and Equipment:	
Additions	\$0
Net Working Capital (Deficit)	\$(155,558)
Total Assets	\$24,860,299

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS – June 30, 2004**

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**NOTE E - PENSION PLAN**

Several employees of the Authority are covered under a union administered pension plan. The Authority's contribution is determined by applying a fixed rate to the hours worked by covered employees. The total cost of the pension plan for the year ended June 30, 2004, was \$5,654 and is included in the Statement of Operations with employee welfare costs.

On August 13, 1996, the Authority approved a simplified employee benefit pension plan. The Authority makes contributions to the plan on behalf of its non-union employees. For 2003-04, contributions were made at 8% of gross salary for employees who are over the age of 21 and received at least \$450 in compensation for the year. Total contributions for the year ending June 30, 2004 amounted to \$5,411. The Authority has no liability for the plan beyond its annual contributions.

**NOTE F - COMPENSATED ABSENCES**

Authority employees generally earn sick leave at the rate of one day per month. Sick leave may be accumulated up to ninety (90) days. In the case of employee death or termination, fifty percent (50%) of any unused sick leave will be paid to the employee or the employee's estate. Upon retirement, one hundred percent (100%) of the unused sick pay will be paid to retirees up to the maximum 90 days. Vacation pay may be accumulated up to twenty-five (25) days.

Vacation pay is accumulated annually based on length of service as follows:

<u>Years of Service</u>	<u>Days of Vacation</u>
1	1 week
2 through 4	2 weeks
5 through 9	3 weeks
10 or more	4 weeks

Accrued vacation and sick time are not being recorded as a liability on the Balance Sheet, as required by generally accepted accounting principles. Total accumulated vacation and sick leave at June 30, 2004, was \$12,659 and \$43,920 respectively.

**NOTE G - EQUITY RESERVE**

Repair and Replacement

In 1985, the Authority established a repair and replacement equity reserve account to provide a method for accumulating funds for repairs in excess of \$500 to the aging utility plant. Funds budgeted but unspent and interest earned each year are to be retained by the authority in the reserve for use in future years. The 2003-04 budgeted and expensed amounts for repairs and replacement were \$29,685 and \$29,894 respectively, over spending the budget amount by \$209. During the current year the Authority utilized \$90,623 of reserved repair and replacement equity and earned \$478 in interest. Therefore the repair and replacement equity reserve accounts at June 30, 2004, were adjusted to reflect the net change of \$90,354, using the cost allocation percentages for each city.

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS – June 30, 2004**

**NOTE G - EQUITY RESERVE (Continued)**

Bond Payments

In 1999, the Authority established a bond payment equity reserve account to provide a method for accumulating funds to avoid large annual changes in charges to the cities for future bond payments. Funds budgeted but unspent each year and interest earned on the bond account is to be retained by the authority in the reserve for use in future years. Likewise, bond payments in excess of budgeted amounts during the year are to be taken from the reserve account. The 2003-04 budgeted and expensed amounts for bond payments were \$940,000 and \$922,363 respectively and interest earned was \$1,350. Therefore the bond payment equity reserve accounts at June 30, 2004, were adjusted to reflect the net change increase of \$18,987, using the cost allocation percentages for each city.

Contingency

A contingency account was established in prior years to provide a reserve for extraordinary expenditures. It was funded by a levy of an additional 10% of the prorated operating costs to each municipality. On May 15, 1979, the Authority approved the change to a flat amount to be determined upon approval of the annual operating budget. No contingency amount was charged to the cities for the year ended June 30, 2004.

A summary of changes in Equity Reserve is as follows:

	Balance			Balance
	07/01/03	Additions	Subtractions	6/30/04
Repair and Replacement	\$ 210,552	\$ 478	\$ 90,832	\$ 120,198
Bond Payments	\$ 53,111	\$ 18,987	\$ 0	\$ 72,098
Contingency	\$ 36,758	\$ 0	\$ 0	\$ 36,758

**NOTE H - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has obtained commercial insurance to handle its risk of loss.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**SUPPLEMENTAL FINANCIAL INFORMATION**

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**STATEMENT OF ACTIVITY - BUDGET AND ACTUAL**  
**Year ended June 30, 2004**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Wages	\$ 220,250.00	\$ 228,532.52	\$ (8,282.52)
Payroll taxes	22,500.00	22,366.58	133.42
Employee welfare	104,100.00	104,779.92	(679.92)
Administrative expense	69,100.00	72,260.25	(3,160.25)
Office operation	3,445.00	3,007.98	437.02
Power	109,000.00	104,915.00	4,085.00
Fuel for heating	11,380.00	11,718.64	(338.64)
Water	1,425.00	1,287.90	137.10
Phosphate chemicals	41,200.00	41,578.61	(378.61)
Snow removal and bed prep	30,200.00	26,197.80	4,002.20
Maintenance parts and supplies	28,215.00	29,798.89	(1,583.89)
Repair and replacement	29,685.00	29,893.68	(208.68)
Vehicle expense	4,000.00	4,642.00	(642.00)
Lab and other supplies	9,000.00	9,029.37	(29.37)
Outside lab services	21,000.00	18,701.00	2,299.00
Insurance	39,000.00	35,773.11	3,226.89
Telephone	9,100.00	9,302.86	(202.86)
Professional services	13,000.00	11,758.97	1,241.03
Training and travel	3,000.00	2,586.99	413.01
Miscellaneous	0.00	1,049.65	(1,049.65)
Total Expenses	768,600.00	769,181.72	(581.72)
Repair and replacement adjustment	-	(208.68)	208.68
		<u>768,973.04</u>	
Principal payments		325,000.00	
Bond interest payment		597,363.00	
Bond payment reserve adjustment		(40,257.77)	
Total Bond Activity	<u>940,000.00</u>	<u>882,105.23</u>	<u>57,894.77</u>
Sub-Total	1,708,600.00	1,651,078.27	57,521.73
Other income	-	(2,123.00)	2,123.00
Interest income	-	(1,949.55)	1,949.55
Repair and replacement interest	-	477.35	(477.35)
Total	<u>\$ 1,708,600.00</u>	<u>\$ 1,647,483.07</u>	<u>\$ 61,116.93</u>

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**DUE FROM MUNICIPALITIES**  
**Year ended June 30, 2004**

	<u>TOTAL</u>	<u>HOUGHTON</u>	<u>HANCOCK</u>
FLOWAGE PERCENTAGES		<u>73.686%</u>	<u>26.314%</u>
Prior Year Due From (To)	\$ 58,345.58	\$ (56,362.20)	\$ 114,707.78
Amount billed	1,708,596.00	1,242,480.00	466,116.00
Payments received	<u>(1,728,098.58)</u>	<u>(1,186,117.80)</u>	<u>(541,980.78)</u>
DUE FROM (TO) MUNICIPALITIES PRIOR TO ALLOCATION	<u>\$ 38,843.00</u>	<u>\$ 0.00</u>	<u>\$ 38,843.00</u>
AUDIT ADJUSTMENTS:			
Expense (Revenue) Allocation:			
Operating expenses	\$ 769,181.72	\$ 566,777.70	\$ 202,404.02
Repair & Replacement activity	(208.68)	(153.77)	(54.91)
Repair & Replacement interest	477.35	351.74	125.61
Bond payment activity	17,637.01	12,995.97	4,641.04
Bond reserve interest	1,350.08	994.82	355.26
Other income	(2,123.00)	(1,564.35)	(558.65)
Interest income	(1,949.55)	(1,436.54)	(513.01)
Interest expense:			
Direct allocation	28,429.94	17,760.55	10,669.39
Usage allocation	<u>568,933.04</u>	<u>419,222.87</u>	<u>149,710.17</u>
Total Expense (Revenue) Allocation	1,381,727.91	1,014,948.99	366,778.92
Debt Payments:			
Bond Principal Payment			
Direct allocation	15,467.53	9,662.77	5,804.76
Usage allocation	<u>309,532.47</u>	<u>228,081.48</u>	<u>81,450.99</u>
Total bond payments	<u>325,000.00</u>	<u>237,744.25</u>	<u>87,255.75</u>
Total Expense/Revenue and Debt Payments	1,706,727.91	1,252,693.24	454,034.67
Amount billed	<u>(1,708,596.00)</u>	<u>(1,242,480.00)</u>	<u>(466,116.00)</u>
Billed (over) under	(1,868.09)	10,213.24	(12,081.33)
Due from Municipalities Prior to adjustments	<u>38,843.00</u>	<u>0.00</u>	<u>38,843.00</u>
DUE FROM (TO) MUNICIPALITIES AT END OF YEAR	<u>\$ 36,974.91</u>	<u>\$ 10,213.24</u>	<u>\$ 26,761.67</u>

**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**SCHEDULE OF GALLONS PROCESSED**  
**Year ended June 30, 2004**

	<u>Total</u>	<u>Percentage</u>
Gallons:		
Houghton	585,256,350	73.686%
Hancock	209,003,000	26.314%
<b>TOTALS</b>	<u><u>794,259,350</u></u>	<u><u>100.00%</u></u>

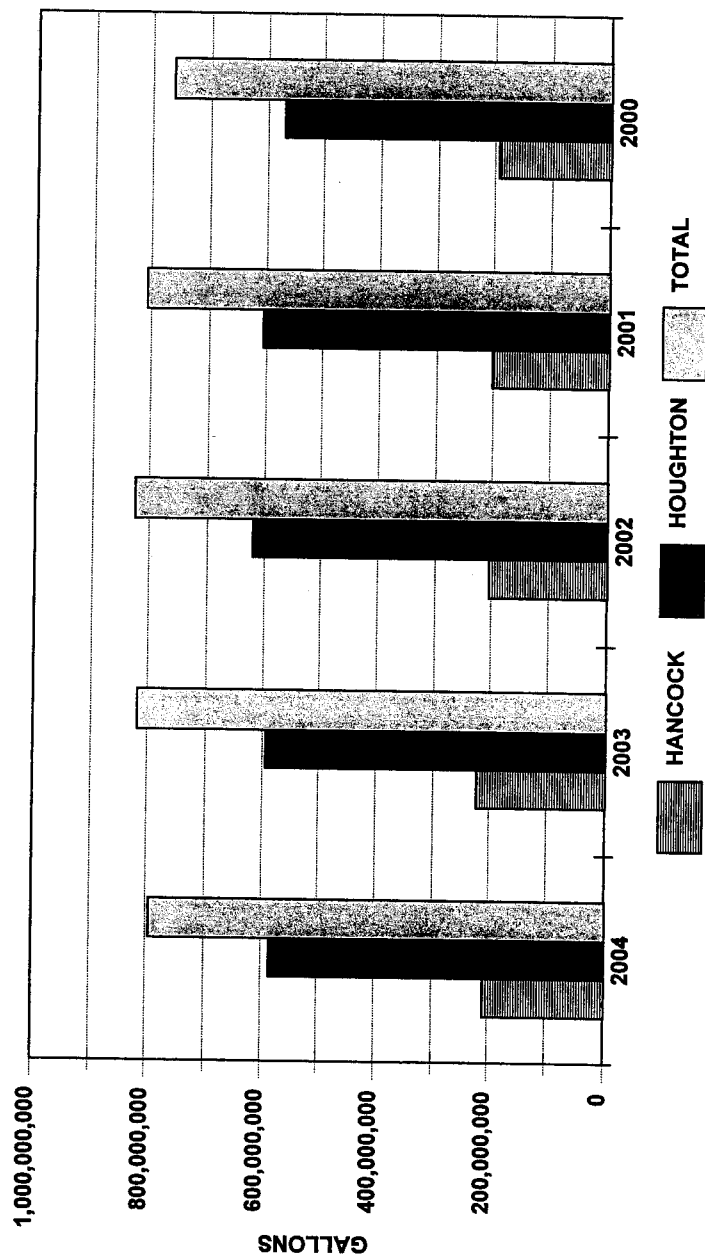
**FLOWAGE (GALLONS)**

<b>HOUGHTON</b>	<u>2002-03</u>	<u>2003-04</u>	<u>Variance Increase (Decrease)</u>
July	34,687,490	39,242,490	4,555,000
August	40,336,490	37,912,490	(2,424,000)
September	50,328,700	40,330,700	(9,998,000)
October	65,122,490	42,959,490	(22,163,000)
November	43,554,700	46,519,700	2,965,000
December	40,662,490	42,828,490	2,166,000
January	39,025,490	37,353,490	(1,672,000)
February	36,837,120	42,369,120	5,532,000
March	58,401,490	67,865,490	9,464,000
April	81,796,700	83,974,700	2,178,000
May	61,648,490	54,681,490	(6,967,000)
June	42,112,700	49,218,700	7,106,000
	<u><u>594,514,350</u></u>	<u><u>585,256,350</u></u>	<u><u>(9,258,000)</u></u>

<b>HANCOCK</b>	<u>2002-03</u>	<u>2003-04</u>	<u>Variance Increase (Decrease)</u>
July	13,061,000	15,078,000	2,017,000
August	14,322,000	13,157,000	(1,165,000)
September	16,525,000	13,179,000	(3,346,000)
October	22,476,000	13,818,000	(8,658,000)
November	15,149,000	15,401,000	252,000
December	15,776,000	15,650,000	(126,000)
January	14,523,000	15,339,000	816,000
February	13,087,000	14,485,000	1,398,000
March	26,347,000	27,208,000	861,000
April	31,407,000	29,673,000	(1,734,000)
May	24,160,000	18,820,000	(5,340,000)
June	16,201,000	17,195,000	994,000
	<u><u>223,034,000</u></u>	<u><u>209,003,000</u></u>	<u><u>(14,031,000)</u></u>

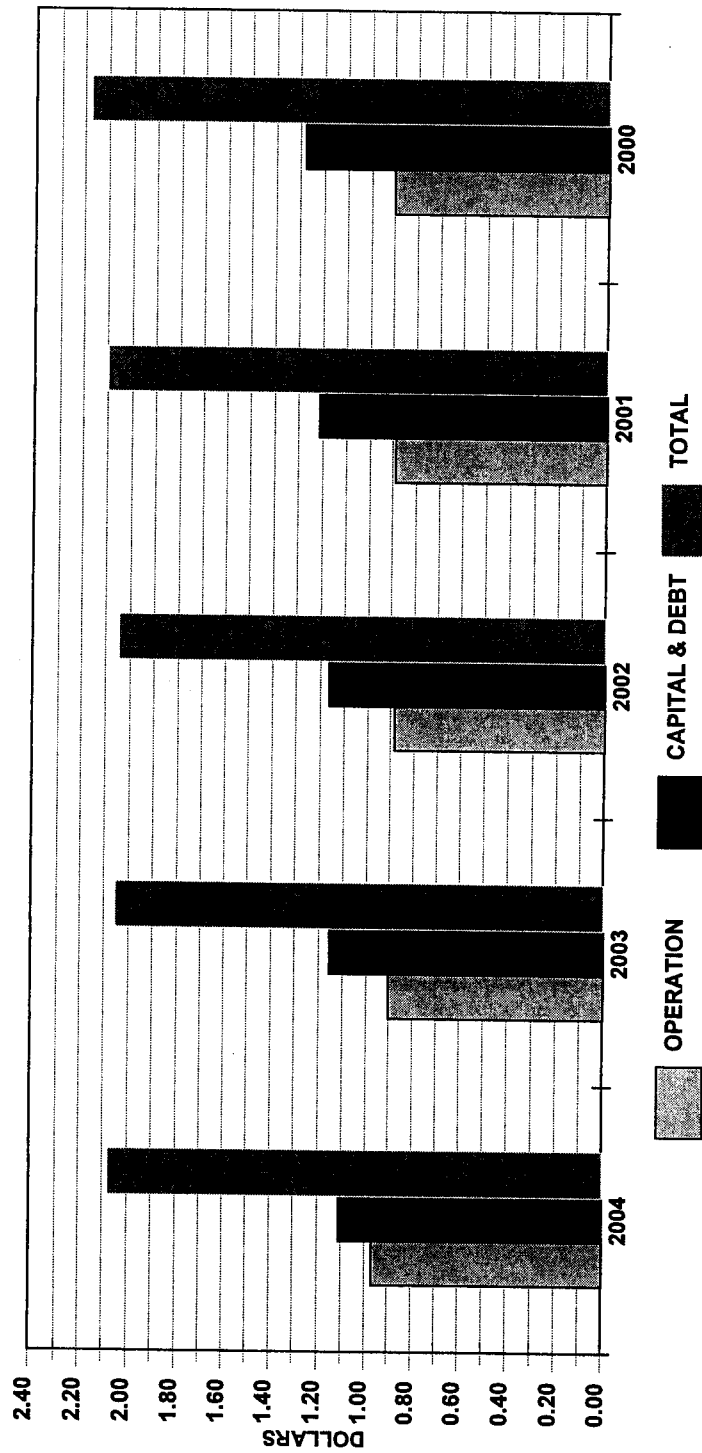


**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**FLOWAGE ANALYSIS**  
**Year ended June 30, 2004**



**PORTAGE LAKE WATER & SEWAGE AUTHORITY**  
**NET OPERATING COST PER 1,000 GALLONS**

Year ended June 30, 2004





**Bruce A Rukkila, CPA, PC**

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### LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Trustees  
Portage Lake Water & Sewage Authority  
Houghton, Michigan 49931

We have audited the financial statements of the Portage Lake Water & Sewage Authority as of and for the year ended June 30, 2004, and have issued our report thereon dated August 4, 2004.

The following suggestions are submitted to assist in improving procedures and controls.

#### Depreciation

(Repeat of prior year comment)

Currently the Authority does not depreciate long-term assets (property, plant, and equipment) as required by generally accepted accounting principles which requires that long-term assets be systematically depreciated over their estimated useful lives. It was not determined during the audit if adequate and accurate records exist for computing depreciation. We would recommend that the Authority attempt to develop these records and depreciate assets in accordance with required accounting practices.

#### Amortization

(Repeat of prior year comment)

Currently the Authority does not amortize bond refunding costs or gain on defeased debt relating to its bond issue as required by generally accepted accounting principles which requires that bond refunding costs and gain on defeased debt be amortized over the remaining life of the defeased debt or the life of the debt. We would recommend that the Board consider the recording of these transactions.

#### Accrued Compensated Absences

(Repeat of prior year comment)

At June 30, 2004, the Authority had accrued unpaid employee sick and vacation time totaling \$56,579. (See Note D to financial statement). In accordance with generally accepted accounting principles the Authority is required to record this amount as a liability on its financial statements. We would recommend that the Board consider the recording of this liability.

Insured Deposits

We noted approximately eighty-nine percent (89%) of the Authority's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend extending deposits to various financial institutions to decrease the risk of loss to the District.

Board Minutes Documentation

(Repeat of prior year comment)

It is recommended that authorization of the Authorities public depositories (banks), check signers, and attorney be done and noted in the minutes.

We would like to thank the staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present the above suggestions and are prepared to discuss them at your convenience.

This report is intended for the information of the board of trustees, management, the oversight audit agency, and other federal and state audit agencies, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

August 4, 2004